

Upgrading forecasts after strong H1

"Don't fight the Fed" is a tried and tested Wall Street strategy that has worked a treat over the past decade. Basically it states that when US interest rates fall, global equities should rise thanks to lower borrowing costs for consumers and corporates alike. Similarly after last week's dovish testimony to Congress by FOMC Chair, Jerome Powell, we believe this bias towards more monetary easing should keep the economy ticking along, and places a 'Put' under valuations.

Not that MPAC especially needs any outside help, given this morning's **positive H1 trading statement**. Indeed the **business is literally flying with FY19 results anticipated to be "significantly above market expectations"** - thanks to a rich seam of new orders for its advanced high speed production/packaging machines and complementary services. Underpinned too, by increasing demand for customerised 'end-to-end' & 'smart-enabled' solutions (re Industry 4.0).

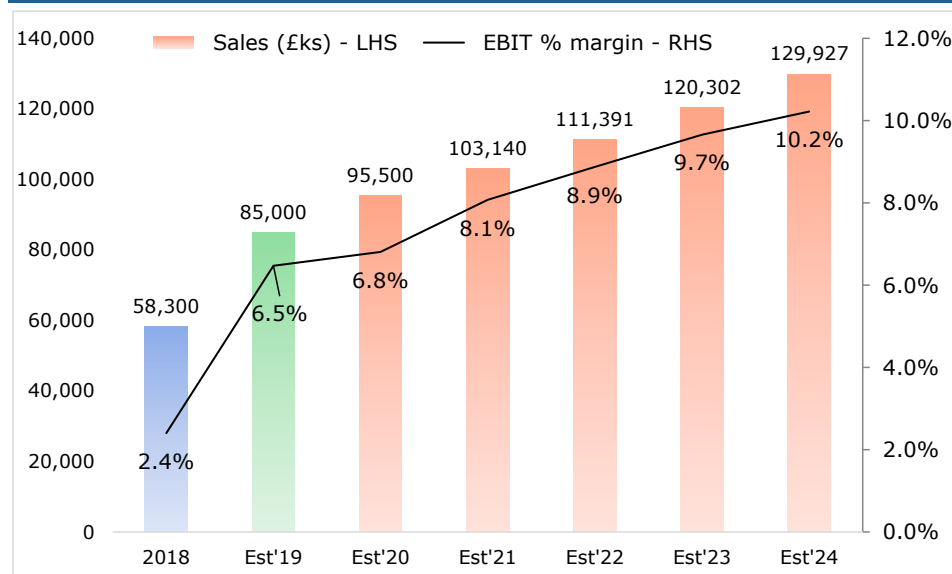
Greater demand coming from Healthcare

Better still, we suspect that a **big chunk of this incremental revenue is coming from the 'economically resilient' healthcare sector**, where a large contract was secured in 2018. Here there are multi-year upselling opportunities, involving upfront system design, factory equipment sales, implementation and ongoing service, spares & diagnostics

With regards to the numbers, we have **upgraded our FY19 & FY20 turnover forecasts to £85.0m** (+25% organic growth in packaging) & **£95.5m** respectively – which has likewise **pushed adjusted EBIT higher to £5.5m** (+20%, vs £4.6m before, £1.4m LY) and **£6.5m** (+2%, vs £6.4m) for this year and next.

Set for 25% FY19 LFL growth & improving margins

Increasing top and bottom line results



Source: Equity Development

16th July 2019

Company Data

EPIC	AIM:MPAC
Price (last close)	155p
52 week Hi/Lo	220p/105p
Market cap	£31.3m
Net cash (Est. Dec '19)	£9.0m
Share count (incl Treasury)	20.172m
ED valuation/ share	260p
Avg. daily volume	25,000

Share Price, p



Source: Web Financial

Description

MPAC is a specialist provider of high speed production/packaging machines and complementary services with c. 510 staff. The group encompasses the design/manufacture of factory equipment and robotic solutions, as well as undertaking turnkey projects involving the design/integration such systems. >80% of revenues are generated outside of the UK, hence providing a natural hedge against further sterling weakness.

Core verticals are Pharmaceutical, Medical, Healthcare and Food/Beverage, supporting the likes of Nestlé, GSK, P&G, Philips, ConvaTec, AstraZeneca, Unilever, Kellogg's, Diageo, Ferrero, Hollister and CooperVision.

Next news: Interims 5th Sept '19

Paul Hill (Analyst)

paul.hill@equitydevelopment.co.uk

£15m Lambert acquisition bedding down well

Elsewhere, **the integration of Lambert Automation** (purchased in May '19 for £15m) **is progressing to plan**. Not only generating economies of scale, but also supporting the group's key medical, healthcare and food/beverage verticals, alongside offering back office, property, supply chain, procurement and overhead savings, as the 2 firms are merged over the next 12-24 months.

Tony Steels adding: ***"Trading is ahead of the Board's and market expectations, with the momentum gained in the latter months of 2018 continuing into H1'19. The current order book, year to date order intake and the volume of quotation activity provides confidence in the prospects for the remainder of FY19. The Board anticipates that profit for FY19 will be significantly above market expectations."***

Excellent visibility for rest of FY19

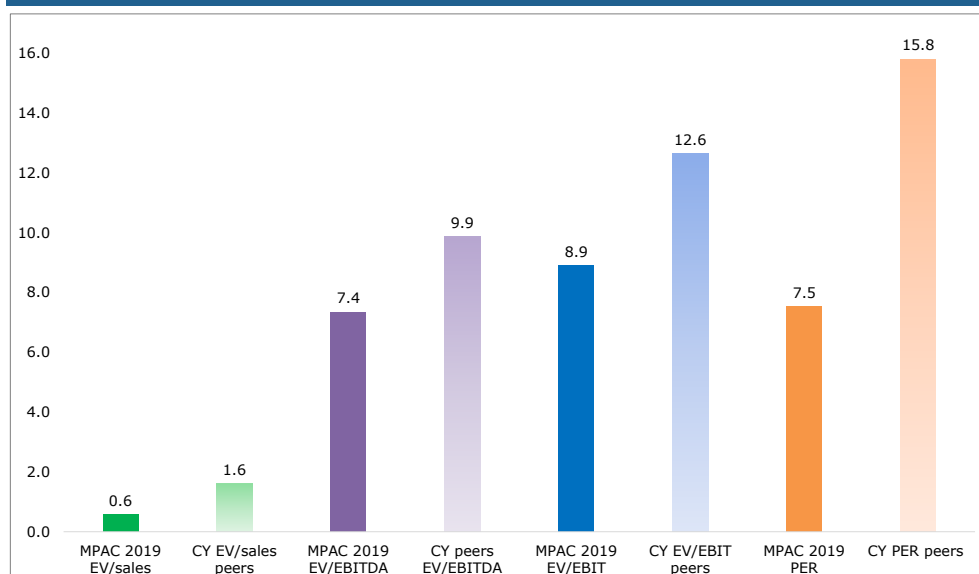
Moreover, last month the company said that the **actuarial deficit** relating to its **UK pension scheme had reduced from £69.9m in Jun'15 to £35.2m at Jun'18** – and importantly is now expected to be completely eliminated by Jul'24. 5 years earlier than previously envisaged.

Valuation lifted from 245p to 260p/share

Consequently, due to the strong H1 and encouraging outlook, **we have raised our valuation from 245p to 260p/share** – underpinned by **excellent visibility for H2'19**, based on YTD revenues, orderbook flow-through and normal repeat service business. Plus, with >80% of revenues generated overseas, there's also a natural hedge for UK investors against additional currency depreciation (£:\$1.26 spot), say in the event of a 'no-deal' Brexit.

Lastly, it is worth noting that at 155p the stock trades at an unwarranted discount (see below) to its engineering/packaging peers.

MPAC 2019 valuation benchmarks vs peers (see appendix)



Source: Equity Development (MPAC metrics have been pension adjusted, except for PER)

Key risks

- As demonstrated in past recessions, capital equipment volumes are typically exposed to the cyclical nature of the global economy.
- The large size of the UK (£377.7m of liabilities) & US (£22.5m of liabilities) defined benefit pension schemes compared to MPAC's market capitalisation.
- Currency exposure, trade tariffs, raw material price increases (eg steel, aluminium) and competition.
- MPAC is smaller than its rivals/clients (eg German and Italian) and could see margins squeezed.
- Slower than expected growth, higher costs and/or lower cash generation.
- Industry suffers occasionally from lumpy orders, protracted customer purchasing decisions and irregular cashflows over the period end.
- Long term trend towards clients outsourcing production to 'low cost' contract manufacturers.
- Continued industry consolidation could impact pricing and margins.

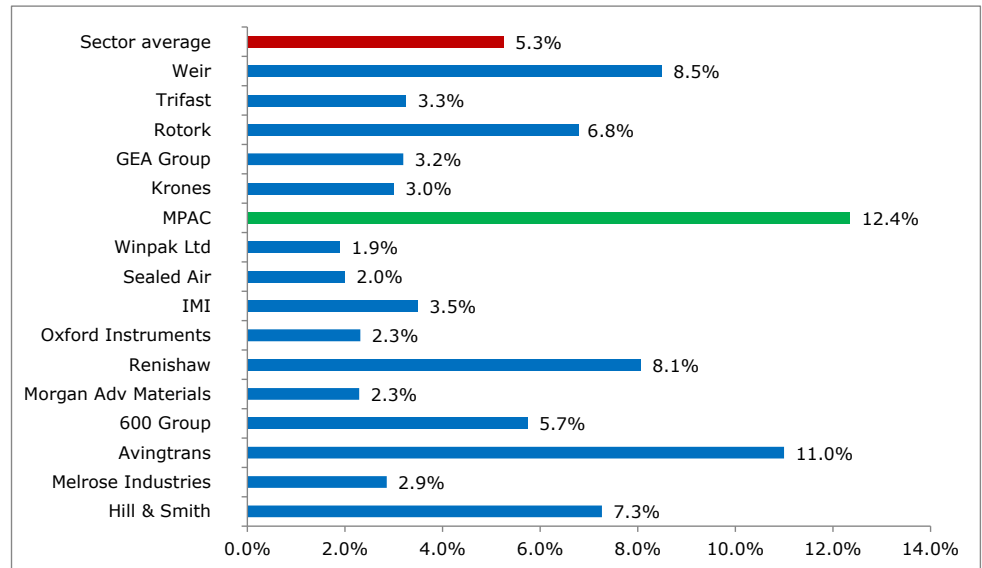
Adjusted financial projections

MPAC plc - continuing (December year end)	2016 Act £'000s	2017 Act £'000s	2018 Act £'000s	2019 Est £'000s	2020 Est £'000s	2021 Est £'000s	2022 Est £'000s	2023 Est £'000s	2024 Est £'000s	2025 Est £'000s
Closing orderbook	25,500	34,400	39,800							
Growth		35%	16%							
Equipment	28,800	40,400	46,200	57,750	58,000	62,640	67,651	73,063	78,908	85,221
Service	12,700	13,000	12,100	15,125	15,200	16,416	17,729	19,148	20,679	22,334
Lambert Automation				12,125	22,300	24,084	26,011	28,092	30,339	32,766
Turnover	41,500	53,400	58,300	85,000	95,500	103,140	111,391	120,302	129,927	140,321
Equipment		40.3%	14.4%	25.0%	0.4%	8.0%	8.0%	8.0%	8.0%	8.0%
Service		2.4%	-6.9%	25.0%	0.5%	8.0%	8.0%	8.0%	8.0%	8.0%
Lambert Automation					83.9%	8.0%	8.0%	8.0%	8.0%	8.0%
Total % YoY growth		28.7%	9.2%	45.8%	12.4%	8.0%	8.0%	8.0%	8.0%	8.0%
Equipment	5,400	9,200	9,300	11,719	11,832	13,154	14,545	16,074	17,478	19,004
Service	5,600	5,300	4,700	5,876	5,923	6,561	7,086	7,653	8,266	8,927
Lambert Automation				4,711	8,690	9,626	10,396	11,228	12,126	13,097
Total gross margin	11,000	14,500	14,000	22,306	26,446	29,342	32,028	34,955	37,870	41,028
Equipment	18.8%	22.8%	20.1%	20.3%	20.4%	21.0%	21.5%	22.0%	22.2%	22.3%
Service	44.1%	40.8%	38.8%	38.9%	39.0%	40.0%	40.0%	40.0%	40.0%	40.0%
Lambert Automation				38.9%	39.0%	40.0%	40.0%	40.0%	40.0%	40.0%
% Margin	26.5%	27.2%	24.0%	26.2%	27.7%	28.4%	28.8%	29.1%	29.1%	29.2%
EBITDA	450	2,200	2,200	6,651	7,768	9,681	11,331	13,168	14,935	16,883
% Margin	1.1%	4.1%	3.8%	7.8%	8.1%	9.4%	10.2%	10.9%	11.5%	12.0%
Distribution	-5,300	-5,400	-5,000	-7,050	-8,747	-9,306	-9,902	-10,536	-11,210	-11,928
Administration	-6,600	-7,300	-7,200	-9,264	-10,677	-11,165	-11,676	-12,209	-12,768	-13,351
Other	-300	-500	-400	-492	-522	-543	-565	-587	-611	-635
Adjusted EBIT	-1,200	1,300	1,400	5,500	6,500	8,328	9,886	11,623	13,282	15,114
% Operating Margin	-2.9%	2.4%	2.4%	6.5%	6.8%	8.1%	8.9%	9.7%	10.2%	10.8%
Underlying interest charge	-330	-170	0	0	0	0	0	0	0	0
Adjusted Profit before Tax	-1,530	1,130	1,400	5,500	6,500	8,328	9,886	11,623	13,282	15,114
Adjusted EPS (p)	-6.0	4.2	4.5	20.6	24.2	31.0	36.6	43.2	49.4	56.2
EPS growth rate			7.8%	356.1%	17.6%	27.9%	18.1%	18.2%	14.3%	13.8%
Dividend (pence)	1.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reported sharecount (Ks - incl Treasury)	20,172	20,172	20,172	20,172	20,172	20,172	20,172	20,172	20,172	20,172
Valuation benchmarks										
P/E ratio		37.0	34.3	7.5	6.4	5.0	4.2	3.6	3.1	2.8
PER (adjusted for pension recovery payments)					19.9	12.8	9.9	7.8	6.5	3.1
EV/Sales (pension adjusted)	1.18	0.92	0.84	0.58	0.51	0.47	0.44	0.41	0.38	0.35
EV/EBITDA (pension adjusted)		22.2	22.2	7.4	6.3	5.1	4.3	3.7	3.3	2.9
EV/EBIT (pension adjusted)		37.6	34.9	8.9	7.5	5.9	4.9	4.2	3.7	3.2
PEG ratio			4.38	0.02	0.36	0.18	0.23	0.20	0.22	0.20
Corporate tax rate	20.0%	26.5%	35.7%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
EBITDA drop through rate			0.0%	16.7%	10.6%	25.0%	20.0%	20.6%	18.4%	18.7%
Return on equity (%)		1.9%	2.2%	9.2%	9.8%	11.2%	11.7%	12.1%	12.2%	12.2%
Net cash/(debt)	800	29,400	27,000	9,500	9,215	9,910	11,118	12,902	15,217	23,072
Information only - Estimated non-underlying Pension charges										
UK pension recovery payments			-1,900	-1,940	-1,981	-2,022	-2,065	-2,108	-2,152	0
Topup UK pension payments above £5.5m EBIT			0	0	-330	-933	-1,447	-2,021	-2,568	0
UK pension admin costs			-900	-900	-918	-936	-955	-974	-994	-1,014
UK tax shield			532	540	613	739	849	970	1,086	193
US pension recovery payments (net tax shield)			-790	-751	-701	-651	-601	-551	-501	-451
Cashflow effect			-3,058	-3,051	-3,316	-3,803	-4,219	-4,684	-5,129	-1,271
Net cash/(debt) - pence per share		146	134	47	46	49	55	64	75	114
Net assets / diluted share (p)	175	212	201	222	246	277	314	357	406	462
Shareprice (p)	155									

Source: Equity Development. MPAC's EV has been adjusted for pension. The cost of UK PPF levy is included within EBIT.

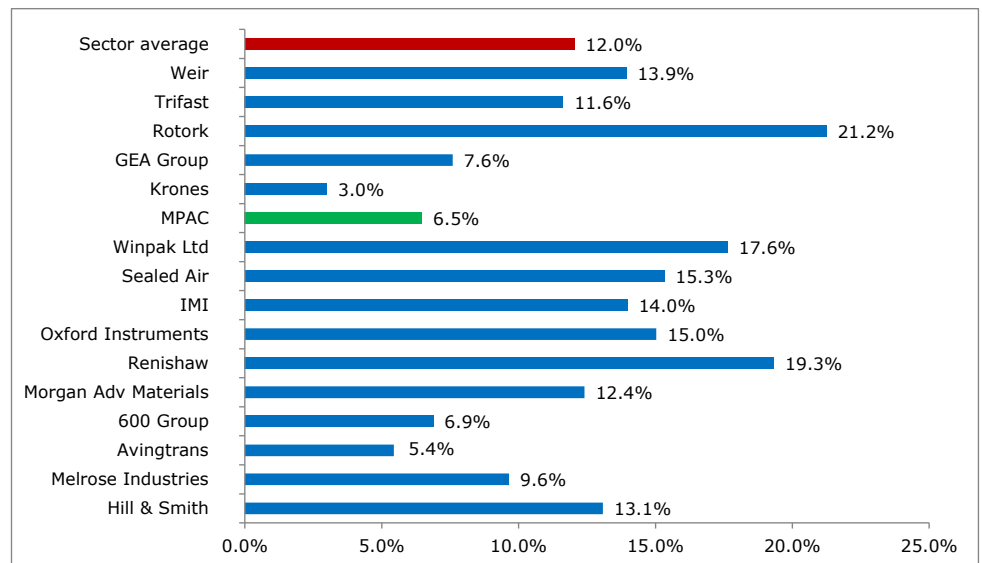
Appendix - Valuation benchmarks & industry KPIs

Current year + 1, sales growth rates



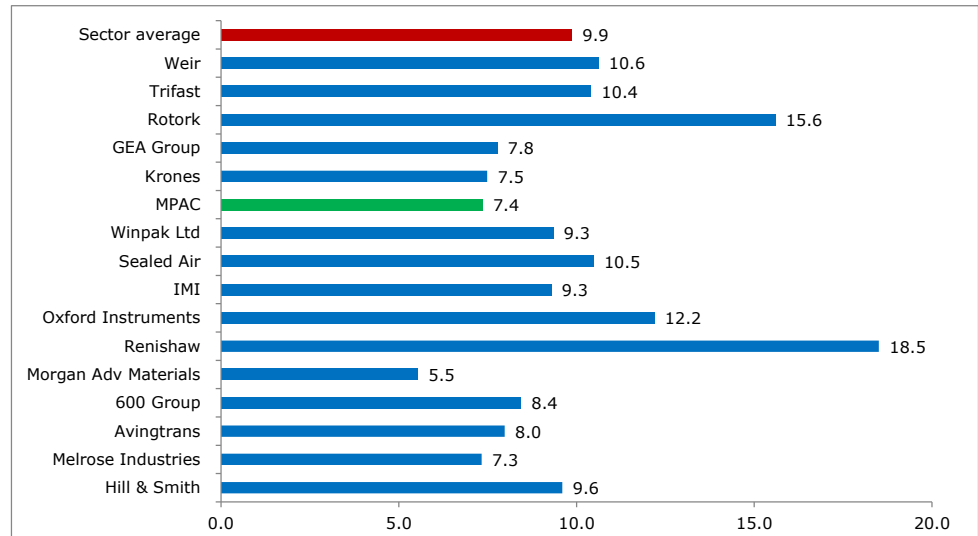
Source: Equity Development

Current year EBIT margins



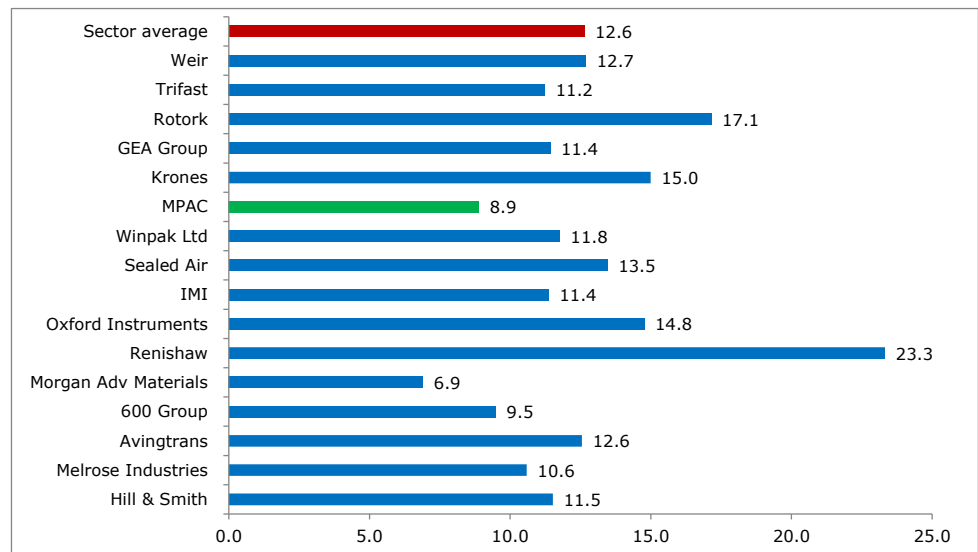
Source: Equity Development

Current year EV/EBITDA



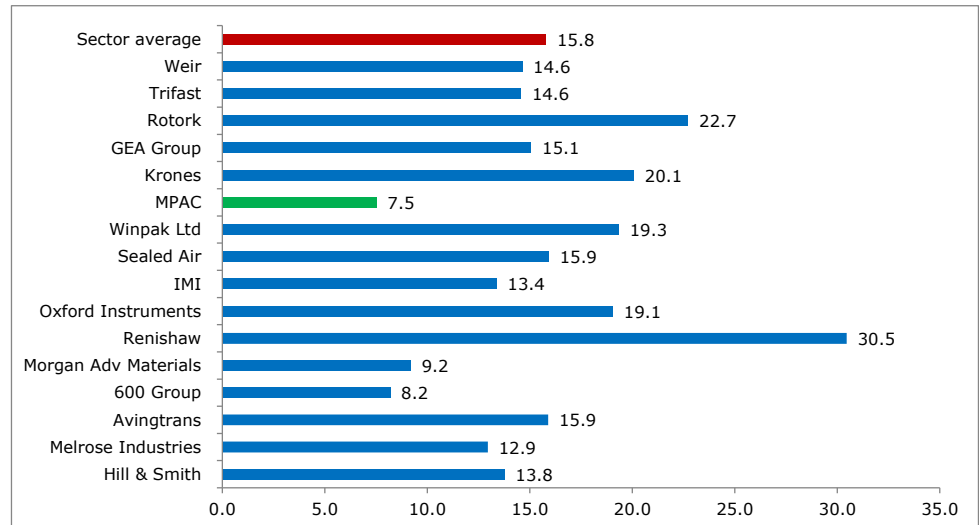
Source: Equity Development. MPAC pension adjusted

Current year EV/EBIT



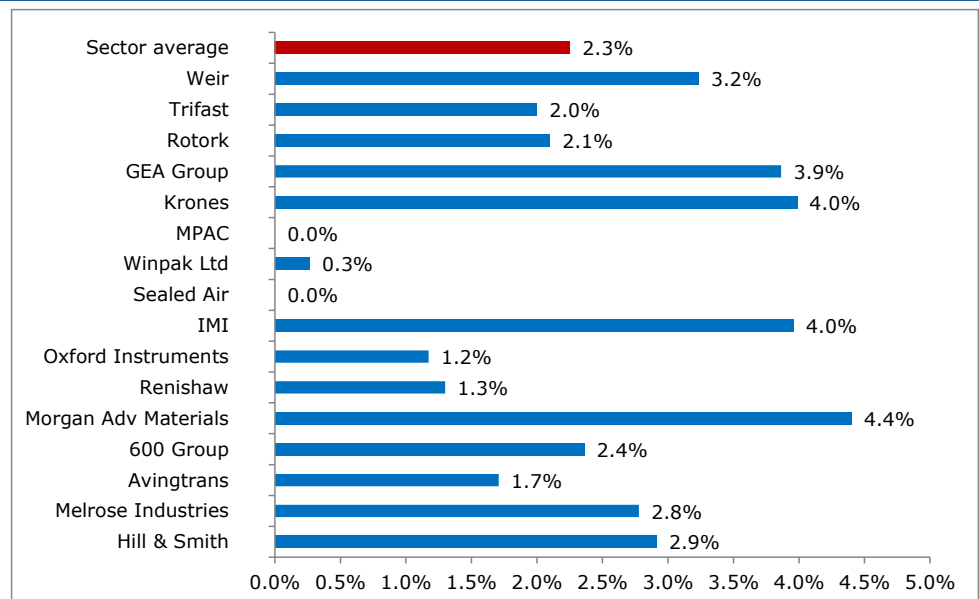
Source: Equity Development. MPAC pension adjusted

Current year PER



Source: Equity Development.

Current year dividend yield



Source: Equity Development



Investor Access

Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

hannah@equitydevelopment.co.uk

Equity Development Limited is regulated by the Financial Conduct Authority

Equity Development Limited ('ED') is retained to act as financial adviser for various clients, some or all of whom may now or in the future have an interest in the contents of this document and/or in the Company. In the preparation of this report ED has taken professional efforts to ensure that the facts stated herein are clear, fair and not misleading, but make no guarantee as to the accuracy or completeness of the information or opinions contained herein.

The research in this document has been produced in accordance with COBS 12.3 as Non-Independent Research and is a marketing communication. This document is not directed at, may not be suitable for and should not be relied on by anyone who is not an investment professional including retail clients. It does not constitute a personal investment recommendation and recipients must satisfy themselves that any dealing is appropriate in the light of their own understanding, appraisal of risk and reward, objectives, experience, and financial and operational resources. Research on its client companies produced and distributed by ED is normally commissioned and paid for by those companies themselves ('issuer financed research') and as such is deemed to be 'non-independent research' but is 'objective' in that the authors are stating their own opinions. This report has not been produced under legal requirements designed for independent research.

ED may in the future provide, or may have in the past provided, investment banking services to its client companies. For ED's employees and consultants there are rules to prevent dealing in the shares of client companies whilst notes are being prepared, or immediately after the note's release. Publication is achieved by a new note being freely available from the ED website. ED's engagement with corporate clients is governed by the laws of England & Wales. In the UK, companies quoted on AIM are subject to lighter due diligence than shares quoted on the main market and are therefore more likely to carry a higher degree of risk than main market companies.

This report is being provided to relevant persons by ED to provide background information about MPAC Group plc. This document does not constitute, nor form part of, and should not be construed as, any offer for sale or purchase of (or solicitation of, or invitation to make any offer to buy or sell) any Securities (which may rise and fall in value). Nor shall it, or any part of it, form the basis of, or be relied on in connection with, any contract or commitment whatsoever. Self-certification by investors can be completed free of charge at www.fisma.org

More information is available on our website

www.equitydevelopment.co.uk

Equity Development, 15 Eldon Street, London, EC2M 7LD. Contact: info@equitydevelopment.co.uk 0207 065 2690